

A CUSHMAN & WAKEFIELD  
RESEARCH PUBLICATION

THE CONTINUALLY  
CHANGING LANDSCAPE OF  
**PRIME  
RETAIL  
MARKETS  
ACROSS  
JAPAN**

SEPTEMBER 2017

**INSIGHTS  
INTO  
ACTION**



**CUSHMAN &  
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CELEBRATING  
**100**  
YEARS



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# SUMMARY

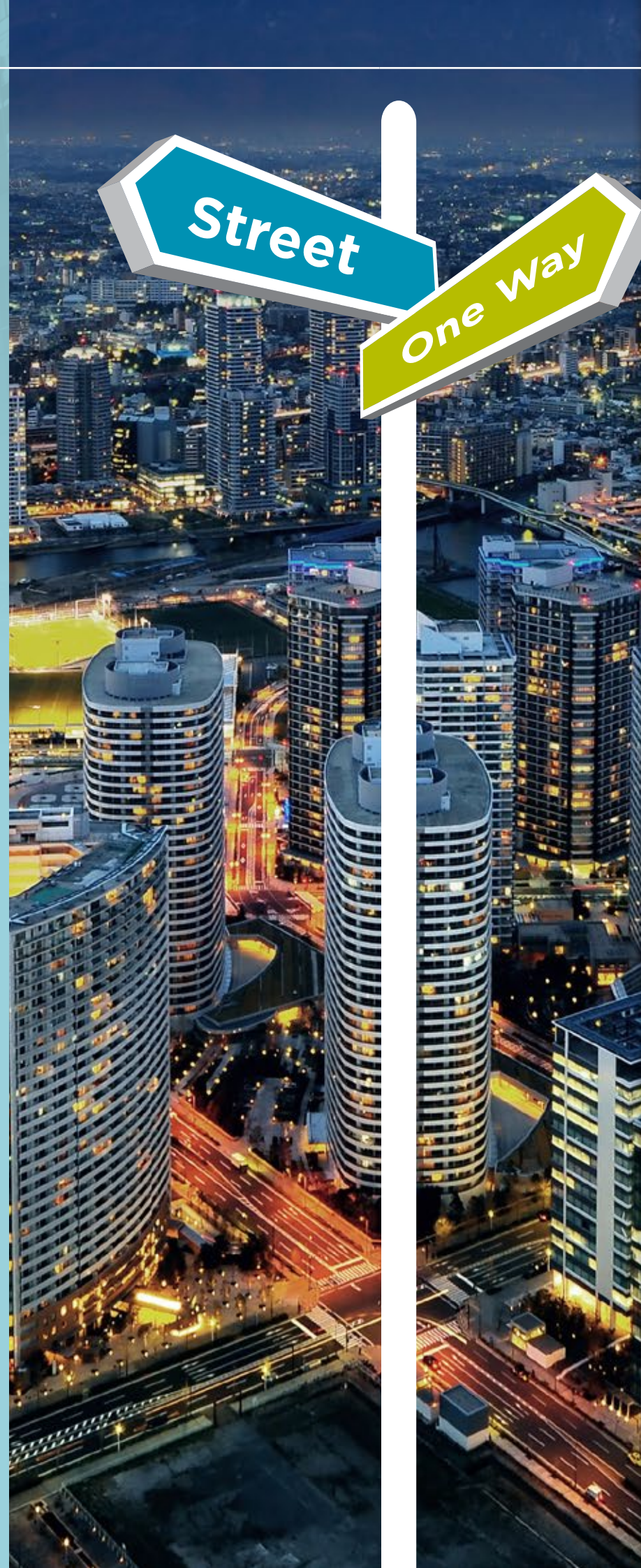
The landscape of Japan’s mature retail market is gradually changing. Area redevelopment projects will change the pedestrian flow and each submarket’s fundamentals, continue to show change. Trends like community oriented retail, pop-up shops, athleisure and food halls are reflecting changing consumer preferences. Subsequently retail markets are shifting and we are seeing changes in the relative positions of Japan’s major retail markets. While the Top Tier Ginza market is showing no signs of relinquishing the number one position, the 56 markets below are due for some exciting changes.

INSIGHTS  
INTO  
ACTION



# PRIME RETAIL MARKETS ACROSS JAPAN RANKING

This section outlines the shifts happening in Japan's retail markets through examination of the changes in rental rates. When analyzing retail markets, the typical approach is to look at Tier 1 streets and observe the prime rents only. These prime rental rates are used as a benchmark which reflects the intensity of demand in the submarket. This report examines 19 of the most prominent retail markets across Japan on a periodic basis; however, to further understand the dynamics of Japan's mature market, we further broke each market down into 3 Tiers, given that there are certain areas that can be classified as more prime than others. We then examined the top rental rates in each of these Tiers across an 18 month period, starting in the fourth quarter of 2015.



## THE SILVER SEAT TAKES GOLD

Ginza commands the highest retail rents in Japan and this comes as no surprise as the area is well known for having some of the most expensive real estate globally. What is surprising is that Ginza has 2 spots within the top six most expensive retail markets as even Tier 2 Ginza rents are only less expensive than the Tier 1 Omotesando, Harajuku, Aoyama and Shinjuku area rents. Further, Ginza Tier 3 rents are tied with or are higher than eight other Tier 1 markets. In other words, Ginza is the clear stand-out retail market in Japan.

Part of the appeal of Ginza is that it continually provides a second to none genuine shopping experience.

Further, Ginza continues to reinvent itself and evolve. In the past 18 months, 3 new facilities have opened: Tokyu Plaza Ginza, Ginza Place & Ginza Six. Ginza Six, Ginza's newest and most impressive shopping center completed its grand opening in April 2017. The opening ceremony was such a popular event that even Prime Minister Abe spoke. Since opening, it has had a significant effect on pedestrian traffic in the Ginza area. Even along Chuo-Dori Avenue, the busiest part of Ginza, there is a noticeable difference in the traffic around the northeastern end. Ginza Six contributed to rental rates rising 17% in the area since the tail end of 2015.



*Tier 1 areas are defined as the most prime retail area within the submarket, Tier 2 areas are the second most prime areas and Tier 3 areas are the third most prime areas within the submarket. Using the 19 submarkets and 3 Tiers within each submarket, we ranked the top end rental rates in each area to give us a comprehensive list of the top retail markets across Japan. We performed this ranking for 3 times across an 18 month period and have examined the changes across time in these key submarkets.*



## RANKINGS DANCE TO THE BEAT OF REDEVELOPMENT & TOURISTS

The ranking of the top two markets has not drastically changed over the 18 month survey period. However, Shinjuku Tier 1 was jumped by Harajuku and Aoyama, pushing it back to 5th place. Shinsaibashi / Midosuji moved into a 6th place tie with Ginza Tier 2, beating out Shibuya Tier 1 in the process as tourists have helped push up rents recently especially where drug and cosmetic stores are concerned.

The Umeda area has gotten a major facelift in recent years. The opening of Grand Front Osaka, the Lucua Shopping center and the Hankyu department store refurbishment have helped to draw retailers towards the area. As the area's appeal improved, rents in the area have correspondingly improved, with Umeda showing a structural improvement, moving up in the rankings for Tier 1 and Tier 2 areas.

Ikebukuro Tier 1 moved from 13th to 9th and Umeda Tier 1 and Shinjuku Tier 2 also earned spots in the top 10. Sakae, in Nagoya fell unceremoniously out of the top 10. Sakae has actually seen a rental decrease as new developments in the Nagoya Station area are drawing demand away from Sakae. Due to this decline, Sakae Tier 1 dropped 7 spots and Sakae Tier 2 dropped the most spots out of all markets, moving 11 spots from 21 to 32.

In recent years, the Nagoya station area has undergone a major transformation. 3 large projects in close proximity to the station have been constructed: JP Tower Nagoya, Dai Nagoya Building and JR Gate Tower. These projects have fundamentally altered the pedestrian traffic in Nagoya, creating greater concentration in the station area. Retailer interest has since shifted focus from the traditional Ohtsu Dori Avenue in Sakae, to the station area, detrimentally affecting the rents in Sakae. The shift to the Nagoya station area will only strengthen with time as there are two more major developments in the pipeline – one completed this year and one scheduled for completion in tandem with the linear motor car.



### 1ST GOAL

20  
million  
visitors

### NEW GOAL

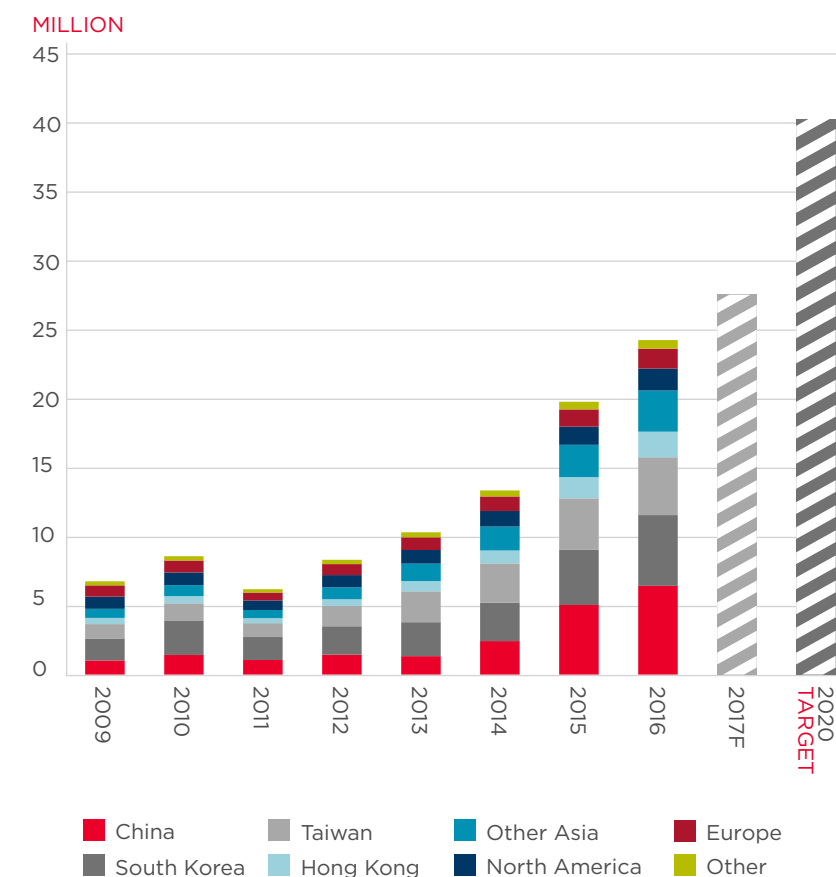
40  
million  
visitors

### 2016 FIGURES

24  
million  
visitors

Tourism and the 2020 Tokyo Olympic Games are powerful growth catalysts for the Japanese economy. Starting in 2013, the Abe government began relaxing visa requirements for selected countries mainly in Southeast Asia. This is particularly important as among the countries that were approved for relaxed regulations are China, Brazil, Thailand, Malaysia, Myanmar, India, Indonesia, the Philippines, and Vietnam; all of which have dynamic economies and a rapidly growing middleclass, ripe with wanderlust. This relaxation, in tandem with a weakening yen, has triggered an influx of tourists. In mid 2013, Prime Minister Abe set an inbound tourism target of 20 million people by the 2020 Summer Olympics in Tokyo but in 2016, due to unprecedented tourism figures in 2015, the government adjusted their 2020 target to an ambitious 40 million visitors, which will create a large opportunity for Japanese retailers. Japan continues to achieve high tourism figures, hitting 24 million tourists in 2016. Driven by high numbers of regional tourists, inbound tourism figures continue to rise into 2017 and the first quarter posted 13% growth from the same period last year. In this respect, tourism figures are on pace to reach the 40 million target. (The target requires a growth rate of 13%) For asset owners and retailers alike, tourism can have a dramatic impact on their business. For example, over the past eighteen months, driven by a high volume of travelers, top end rents in Shinsaibashi have risen 66%.

### INBOUND TOURISM BY COUNTRY OF ORIGIN: 2009-2016 ACTUAL



Source – Cushman & Wakefield and Japan National Tourism Organization as of March 2017



# AMBITIOUS SHIBUYA REDEVELOPMENT

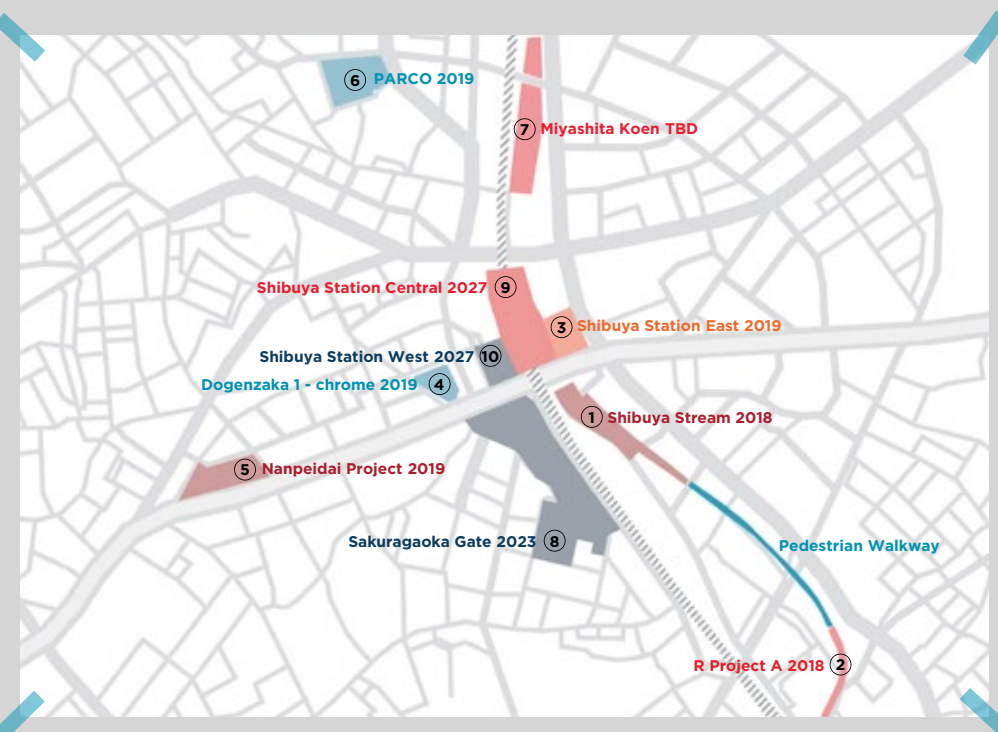
## HAS THE POTENTIAL TO CHANGE THE RETAIL LANDSCAPE

The Shibuya station development project is the most ambitious project in the Tokyo area and when completed, will fundamentally change the pedestrian flow in the submarket.

Of the 10 major new projects scheduled, 5 are on a side of the station that has not traditionally been a popular retail destination. Only the redevelopment of PARCO, Miyashita Park

and the three towers (East, Central & West) of the Shibuya Station area redevelopment can be thought to be in the traditional retail area. What this means is that once completed, the pedestrian flow that had once been directed to the iconic Shibuya crossing, will be now partially be drawn to the opposite side of the station and will move around the station area via pedestrian platform. This change in flow, will ultimately result in a redrawing of the retail map and a readjustment of the Tiers.

Though the area will change, many fashion brands are undecided about relocating to the station area. We think this type of tenant will still favor the traditional retail area. The most prominent redevelopment project in the traditional retail area is the PARCO redevelopment. The 63,000 m<sup>2</sup>

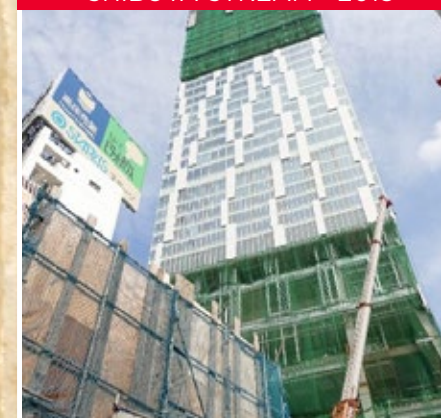


mixed use project is situated on the site of Shibuya Part 1 and Part 3 and is scheduled for completion in the fall of 2019. The new PARCO will develop into a place where fashion, entertainment, food, technology and arts and culture intersect, and will become a new symbol for fashion forward Tokyo-ites.

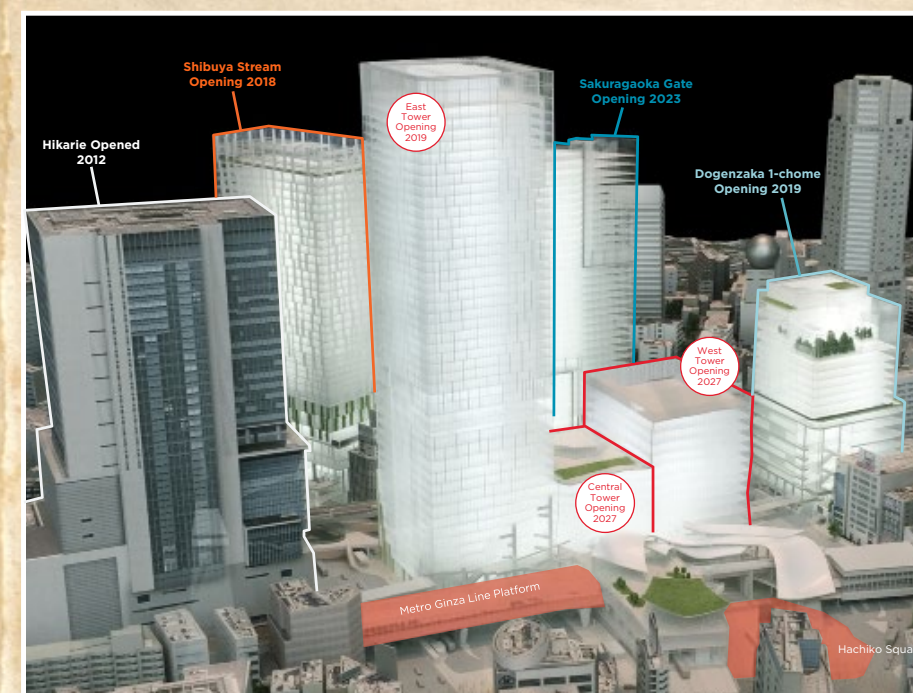
Further adding to the excitement, R Project, a smaller office, retail and nursery school development will serve an important role connecting pedestrian traffic from the quaint shopping development “LOG Road” in Daikanyama with the Shibuya Stream development project. Upon completion, the R project will establish a walkable route from Shibuya to Daikanyama, further expanding the viable retail area in both locations and impacting pedestrian flow.

When compared to other major retail areas such as Ginza and Shinjuku, Shibuya has previously not seen much redevelopment activity and has remained relatively compact. Now, for the first time in a while, small to medium scale developments and residential projects to the south west of the station and redevelopments to the north-west will serve to grow the Shibuya area out from its center.

SHIBUYA STREAM - 2018



SHIBUYA STATION EAST - 2019





# OUTLOOK

Since being overtaken by Harajuku and Aoyama, Shinjuku has come close to bridging the gap between it at the Omotesando, Harajuku and Aoyama areas. Given the supply and demand balance, it is likely that Shinjuku will surpass these three, moving into the second spot in the next few years. Shinjuku is very different in that it was never intended to be a street level retail area; however, given the sheer volume of people using the train systems and underground passages on a daily basis, the area naturally developed into a feasible retail market with strong occupier demand that is expected to continue.

Shinsaibashi's recent growth has been spurred by the influx of tourists. As the growth has been driven by external demand sources, the rental levels are at risk and may not be sustainable as is. Given the gap between rents in Shibuya, Shinsaibashi is still likely to retain its position in the ranking for the time being.

The battle between Ohtsu Avenue in Sakae, Nagoya and the Nagoya Station area is highly likely to be won by Nagoya station area. Further station area developments are proceeding in tandem with the construction of the Linear Motor Car, which will further strengthen the area's position as the key shopping and business district in the Chubu region.

Over a longer term horizon, rents in Shibuya and Ikebukuro should benefit from station area redevelopment projects. The overall effects of the station front projects will vary greatly by area however. Ikebukuro's new developments are located in the traditional retail areas and will contribute to the overall growth of the area through significantly improving the area image. Shibuya on the other hand, will see an expansion of the viable retail area and a fundamental change to its pedestrian traffic flows.

## RANKING

AREA	Q2 2017	2016	2015	JPY/TSUBO/MO	USD/SF/YR
Ginza Tier 1	1	1	1	400,000	1,209
Omotesando Tier 1	2	2	2	300,000	907
Harajuku Tier 1	2	2	5	300,000	907
Aoyama Tier 1	2	2	5	300,000	907
Shinjuku Tier 1	5	5	2	280,000	846
Ginza Tier 2	6	6	2	250,000	756
Shinsaibashi/Midosuji Tier 1	6	7	8	250,000	756
Shibuya Tier 1	8	8	7	200,000	605
Omotesando Tier 2	9	9	8	150,000	453
Harajuku Tier 2	9	9	8	150,000	453
Aoyama Tier 2	9	9	8	150,000	453
Ikebukuro Tier 1	9	9	13	150,000	453
Umeda Tier 1	9	9	15	150,000	453
Shinjuku Tier 2	9	9	15	150,000	453
Kichijoji Tier 1	15	15	13	120,000	363
Sakae Tier 1	15	16	8	120,000	363
Ginza Tier 3	17	16	15	100,000	302
Roppongi Tier 1	17	16	15	100,000	302
Jiyugaoka Tier 1	17	16	15	100,000	302
Marunouchi Tier 1	17	16	21	100,000	302
Tenjin Tier 1	21	21	15	90,000	272
Shinsaibashi/Midosuji Tier 2	21	21	21	90,000	272
Shibuya Tier 2	21	23	21	90,000	272
Kichijoji Tier 2	24	23	21	80,000	242
Ddaikanyama Tier 1	24	23	26	80,000	242
Ikebukuro Tier 2	24	23	30	80,000	242
Marunouchi Tier 2	24	28	30	80,000	242
Umeda Tier 2	28	23	37	70,000	212
Roppongi Tier 2	28	28	26	70,000	212
Jiyugaoka Tier 2	28	28	26	70,000	212
Sapporo Tier 1	31	31	44	65,000	197
Sakae Tier 2	32	31	21	60,000	181
Aoyama Tier 3	32	31	26	60,000	181
Futakotamagawa Tier 1	32	31	30	60,000	181
Sendai Tier 1	32	31	30	60,000	181
Omotesando Tier 3	32	31	30	60,000	181
Harajuku Tier 3	32	31	30	60,000	181
Shinjuku Tier 3	38	38	30	50,000	151
Daikanyama Tier 2	38	38	37	50,000	151
Kichijoji Tier 3	38	38	37	50,000	151
Tenjin Tier 2	38	38	37	50,000	151
Shibuya Tier 3	38	38	37	50,000	151
Marunouchi Tier 3	38	38	37	50,000	151
Futakotamagawa Tier 2	44	44	37	45,000	136
Daikanyama Tier 3	45	45	45	40,000	121
Roppongi Tier 3	45	45	49	40,000	121
Shinsaibashi/Midosuji Tier 3	45	45	49	40,000	121
Futakotamagawa Tier 3	48	48	46	35,000	106
Ikebukuro Tier 3	48	48	46	35,000	106
Jiyugaoka Tier 3	48	48	46	35,000	106
Sendai Tier 2	48	48	49	35,000	106
Umeda Tier 3	48	48	49	35,000	106
Sapporo Tier 2	48	48	55	35,000	106
Sakae Tier 3	54	54	49	30,000	91
Tenjin Tier 3	55	55	54	25,000	76
Sendai Tier 3	55	55	55	25,000	76
Sapporo Tier 3	55	55	57	25,000	76



# TOWARDS AN EXPERIENCE BASED RETAIL MARKET

The fact that experiential retail is the latest retail buzzword is rather odd as retail has fundamentally always been about creating the best possible consumer experience. Nevertheless, “experiential retail” has become a global megatrend and its impact on the Japanese retail environment is becoming apparent.



**Community Oriented Stores Build a Sense of Belonging**



**Health & Wellness Trend Providing Tailwind for Athleisure**



**Pop-up Shops Create Buzz**



**Food Halls Drawing in Consumers**



## COMMUNITY ORIENTED STORES BUILD A SENSE OF BELONGING

DAIKANYAMA T-SITE



As omni-channel retailing becomes more prevalent, the function of a physical store is diversifying.

Moving beyond showrooming, retail stores are attracting customers through increasingly becoming a source of entertainment. Herein lies the beauty of the community oriented store. A central tenet of experiential retail is engagement, and creating a community and a sense of belonging are key methods of inspiring this feeling. Culture Convenience Club (CCC), has pioneered the experiential retail approach in Japan. Through their T-Site locations, and the creation of community focused shopping, CCC has created the epitome of experiential retail. CCC's approach seamlessly keeps consumers fully engaged for long durations of time, creating a community where the customers feel they belong to the place and that it is as a natural extension of their private life. Since successfully piloting this model in Daikanyama, CCC has applied the concept to four more sites across Japan, with the latest opening in Hiroshima.

MUJI HOTEL RENDERING



Household and consumer goods retailer Muji is emerging as a Japanese brand skilled in experiential retail creation, starting with the Muji Café concept.

The in-store café is a tactic often employed by consumer goods retailers; however, few of these retailers have the confidence to open up stand-alone cafes and fewer still have the ability to take the concept overseas and succeed. In 2019, Muji will expand on their concept and open a boutique hotel in Ginza that will feature all Muji furniture, creating an attractive consumer experience that simultaneously showcases Muji's design capabilities and products.

Community based experiential retail concepts, when used effectively, draw consumers in, create engagement and build a stronger connection to the brand. Providing a unique experience to each consumer will become the mode of operation for retailers in Japan moving forward.



# HEALTH & WELLNESS TREND PROVIDING TAILWIND FOR ATHLEISURE

Even as the “experience over things” trend has taken hold, “Athleisure,” the combination of business casual and athletic wear has emerged as a global megatrend in the apparel sector.

This new category of Athleisure has made its presence known in Japan, though the application has been somewhat different. In the ultra-formal Japanese business environment, there is little room for expression of personality through clothing with the main exceptions being ties and socks. Business casual is even a stretch as the closest thing main stream Japanese offices have to business casual is “cool biz” which is literally utility driven. The air conditioning in Japanese offices is often set a few degrees higher than in other countries in order to reduce electricity usage. Athleisure therefore doesn’t have much place within the traditional business environment, but it has worked its way into people’s private lives. More recently, women are choosing more casual clothing to wear during lengthy commutes and this trend may become a new source of demand for athleisure wear.



Currently the strongest demand for new store openings is coming from sports and athleisure brands. The drivers for this activity can be primarily attributed to the 2020 Olympics and an increased focus on health and wellness. Over the past 18 months, we have seen global market leader Lululemon re-enter the Japanese market as well as a handful of other major brands take bigger bets on the sector, such as New Balance, with their Harajuku Flagship or Uniqlo with their ‘Move’ brand opening in Shinjuku. This sector’s dynamic activity is expected to continue until the 2020 Tokyo Olympics.

# POP-UP SHOPS CREATE BUZZ

Recently Japan’s retail market bore witness to a sensational event: Louis Vuitton X Supreme opened up a collaboration pop up shop in Minami-Aoyama in late June as part of a global marketing campaign. The shop was only open for two weeks but managed to draw a large number of consumers. Despite having a 400 person per day limit, the store drew 7,500 people on the first day, reached a maximum number of 8,700 people on July 7th and boasted line up over 3km at one point.

Globally the pop up retailing or flash retailing concept has taken hold. In Japan too, retailers are effectively using the pop up model to make a large impact with a limited time offering or to test the waters with a new product/concept/entry strategy. The success of pop-up shops has not been limited to luxury brands, as the concept has been used by many different sectors including F&B and automotive sector.

400  
person per  
day limit

7,500  
people on the  
first day

3km  
Line up

LOUIS VUITTON X SUPREME POP-UP SHOP





# FOOD HALLS DRAWING IN CONSUMERS

Given Japan's penchant for gourmet food, it is no surprise that the global food hall megatrend has caught on here as well. Food halls are continuously evolving and therefore the definition of what a food hall actually is, is continuously evolving. Originally, the words "Food Hall" just meant the section of a department store where food is sold; however the modern food hall has matured in to something much more.

**The characteristics of the modern food hall are as follows:**



**Gourmet angle & correspondingly higher price point**



**Many overseas examples combine eat in, prepared food and unprepared artisanal/organic food items**

Overseas, food halls are also a venue of choice for concept testing for many restaurateurs as the food hall is generally less capital intensive than setting up a standalone restaurant and usually provides access to higher traffic. At a glance, food halls can easily be confused with the shopping mall food courts but the key differences are the gourmet angle, the unprepared food trait, as well as additional amenities such as cooking schools.

An early rendition of the food hall in Japan is the "depa-chika" or department store basement, which feature a bountiful offering of gourmet prepared foods and a remarkable selection of unprepared foods including cheeses from around the world and fresh farmed fruits and vegetables. In fact, depa-chika could easily make the jump to modern food hall through introducing shared seating and eat in offerings.



Food hall examples that have emerged in the Tokyo area are Isetan Food and Time in Shinagawa, Shinagawa Dining Terrace, also in Shinagawa, Ginza Grand Premium Food Hall in Ginza, and NEWoMan Food Hall in Shinjuku. It should be noted that many food halls in Japan still do not have well developed prepared and unprepared food sales areas.

While the food hall is still a new concept in Japan, we expect it to become a prominent part of retail facilities and new developments moving forward. In general food halls require a large amount of space which makes it difficult to integrate them into existing properties; however, offerings like NEWoMan Food Hall in Shinjuku have demonstrated that the concept works with smaller spaces as well.

Given the emerging trend of "community" oriented retail shops, there is little doubt that "shop-eat-learn" style food halls will make their way to Japan - consumers are increasingly placing higher weight on sharing their experience with their partners / friends.





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